



Looking “Under the Blanket” Of Health Care Costs

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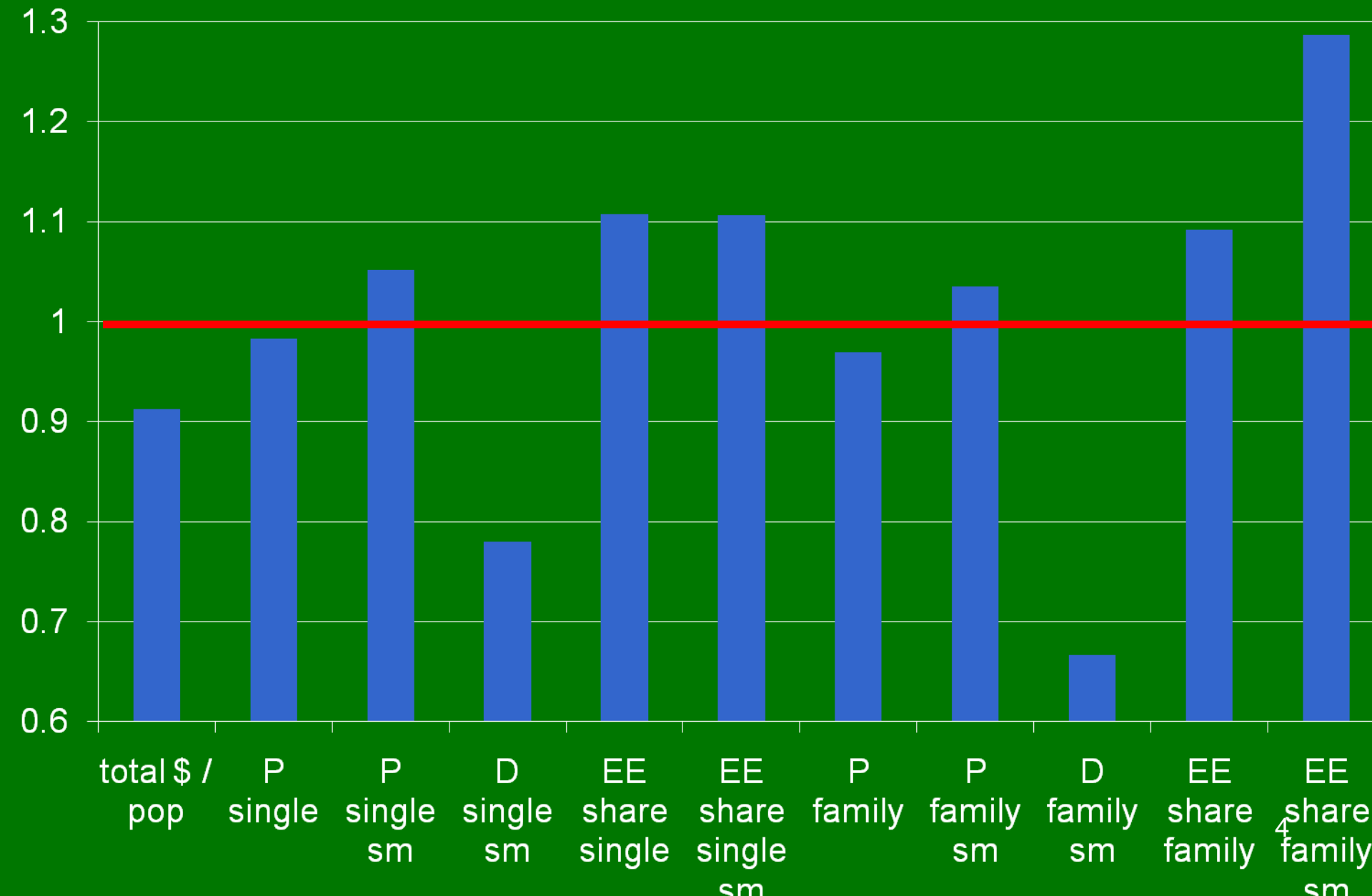
Overview

- Presentation based on background paper, FAQ style
- How high *are* our costs?
- What do we spend our money on?
- WHY are our costs so high?
- What is driving cost growth?

How High *Are* Our Costs?

- US: 16.2% of GDP (OECD avg: 8.9%)
- McKinsey: 28% of US spending “unexpected”
- Virginia: 91% of US average (w/ 10% fewer elderly)

Some VA/US ratios



Coverage Mandates and Premiums

- Virginia has 60, more than 47 states (only MD, RI, and MN have more)
- Evidence on premium impact of mandates is mixed
 - CBO: 5%
 - Texas, LA, MA: 3-4%
 - CAHI: 20-45%
- Virginia has a proposed mandate review process: analyses by JLARC online
 - No new mandate since 2001

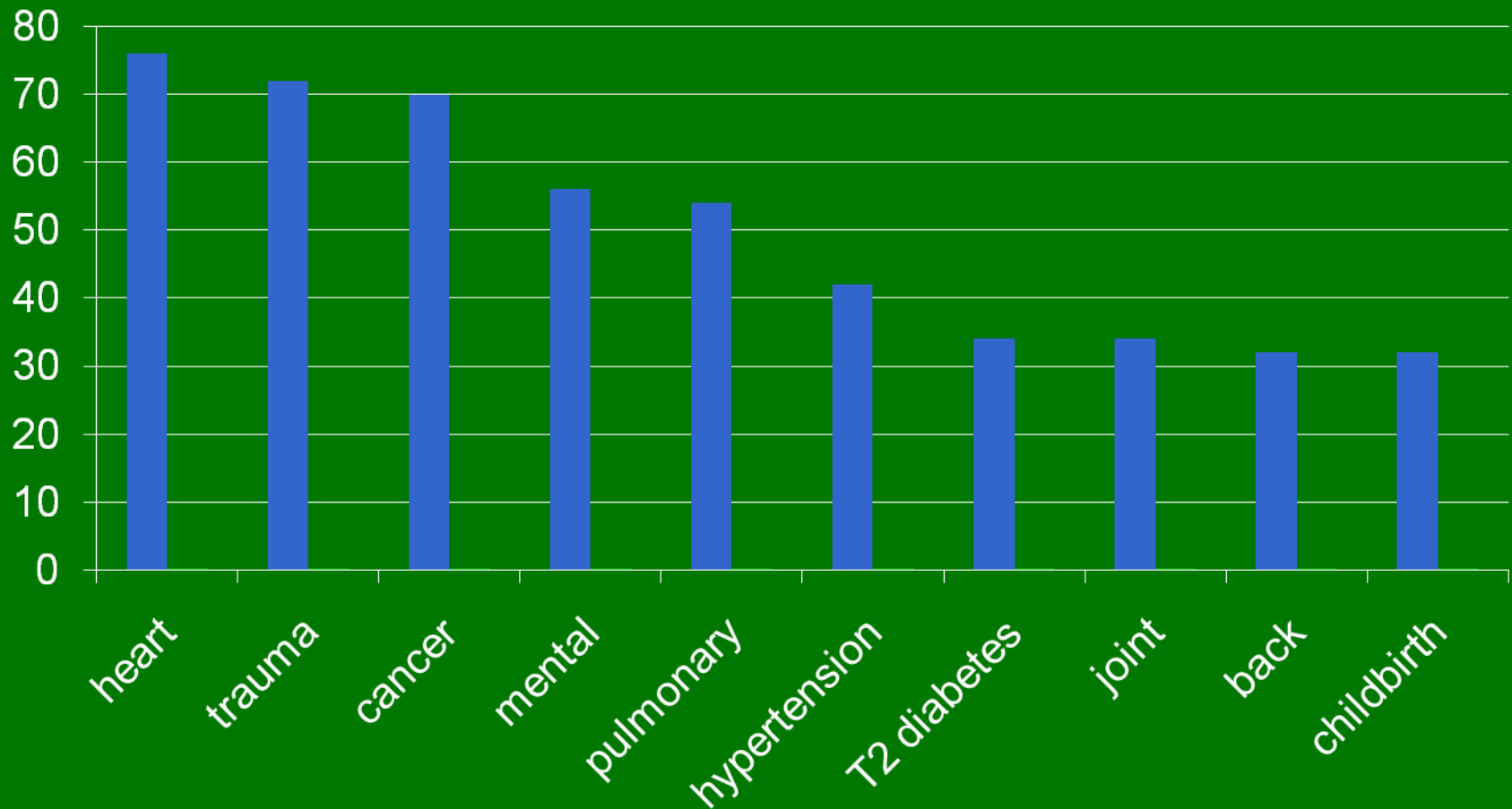
What Do We Spend Our Money On?

- Hospital 33%
- Physicians + other clinicians 22%
- Drugs 11%
- Nursing home and home health 9%
- Admin of Insurance (govt + priv) 7%
- Dental care 5%

Top Ten Procedures' Cost

- | | |
|-------------------------|---------------|
| • Intestine transplant | • \$1,121,800 |
| • Heart transplant | • \$ 787,700 |
| • Bone marrow trnsplnt | • \$ 676,800 |
| • Lung transplant | • \$ 657,800 |
| • Liver transplant | • \$ 523,400 |
| • Open heart surgery | • \$ 324,000 |
| • Pancreas transplant | • \$ 275,500 |
| • Kidney transplant | • \$ 259,000 |
| • Tracheotomy | • \$ 205,000 |
| • Retina lesion removal | • \$ 153,000 |

Spending by Condition, 2005



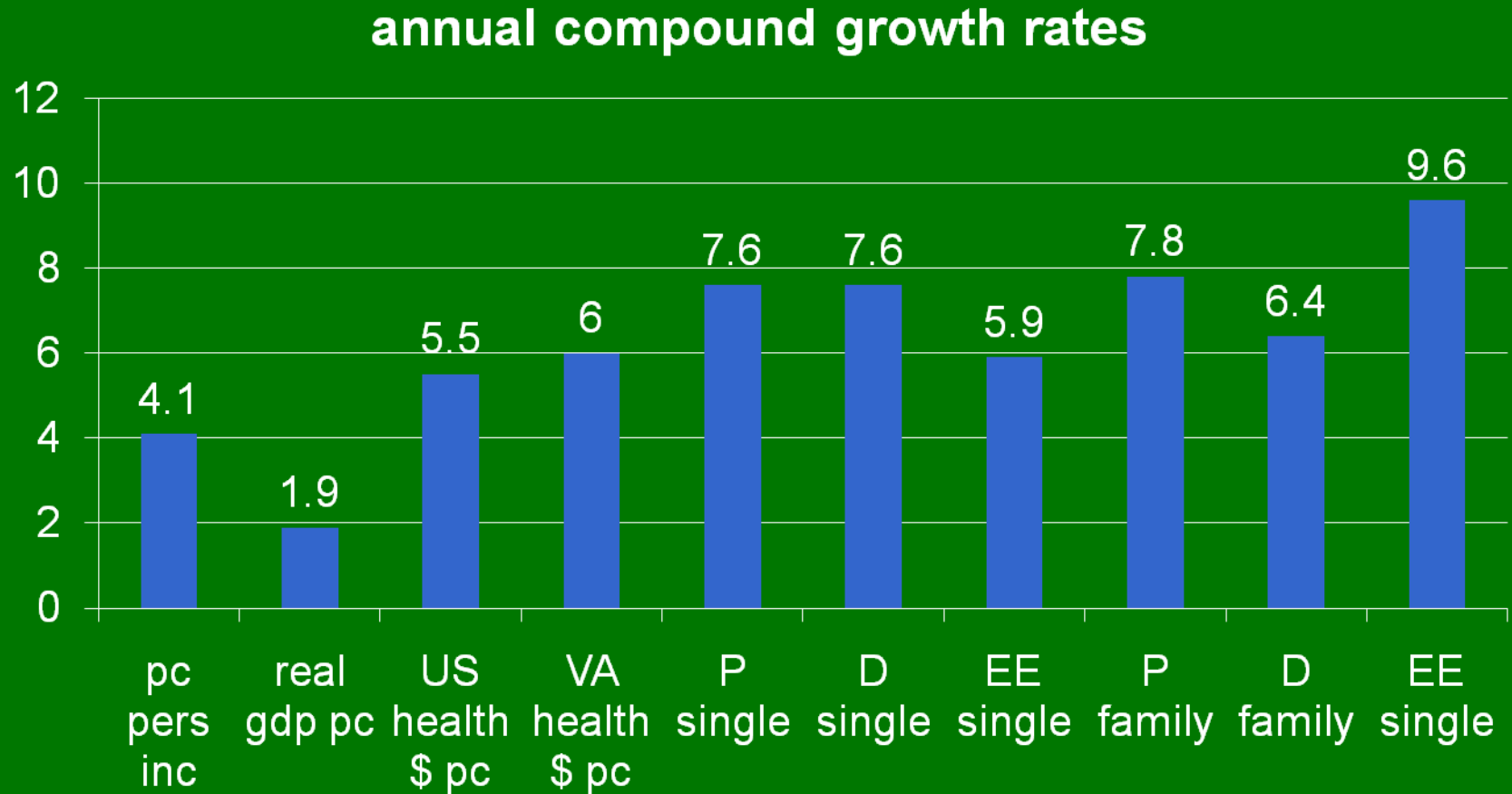
Insurance Administration

- McKinsey estimates that 15% of “excess” spending is on admin, within insurance and provider organizations
- Average “load” in small and non-group markets is considerably higher than in large, self-funded groups

WHY are costs so high?

- McKinsey
 - 2/3 of excess is in outpatient settings
 - Distorted incentives and high prices
 - 10% of excess due to physician prices alone
 - We pay 50% higher prices for drugs
- Academic studies
 - Higher service prices, more invasive procedures and advanced imaging
 - Market power
 - Private prices 30-40% higher than Medicare
- Defensive medicine

Decade long average growth rates



What is Driving Cost Growth?

- Technology
- Cost-Sharing
- Chronic Conditions
- Aging